

Keynes and Proudhon

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Keynes and Proudhon¹

I

SINCE the beginning of the world-wide depression of the 1930's the writings of J. M. Keynes have furnished the chief stimulus for serious discussion of economic policy and economic theory. There is implicit in the Keynesian position an interpretation of capitalism strikingly similar to that of P. J. Proudhon, the French socialist of the nineteenth century. Yet whatever similarities there are between the economic ideas of Keynes and Proudhon must be explained by time-separated reaction to more or less comparable problems. The only formal linkage between the two theorists would be their relations to Silvio Gesell, the stamped-money reformer. Keynes expresses admiration for the fundamentals of Gesell's work, and Gesell in turn avows himself a disciple of Proudhon.² Keynes's agreement with Gesell is not confined to matters of technical theory, but extends also to the social premises of the work³ of that "strange, unduly neglected prophet . . . whose work contains flashes of deep insight and who only just failed to reach down to the essence of the matter."⁴ He characterizes Gesell's work as "anti-Marxian socialism," asserting that "the future will learn more from the spirit of Gesell than from that of Marx."⁵ Since Marx made a bitter attack on Proudhon,⁶ and since Gesell declares himself a disciple of Proudhon, Keynes's references to the superiority of Gesell over Marx suggest important relations between Proudhon and Keynes.

Comparisons have been made between Keynes's *General Theory* and Marx's *Capital*, and efforts have been made to show that Keynes is in the Marxist tradition, or has at least approached it in certain respects.⁷

¹ This article represents part of a longer study, undertaken at the suggestion of Professor Leo Rogin, on antecedents of Keynes's *General Theory*.

² Cf. Silvio Gesell, *The Natural Economic Order, Money Part* (San Antonio, Texas, 1934), "Introduction."

³ J. M. Keynes, *General Theory of Employment, Interest and Money* (New York, 1936), 353-358, 379. Cf. also 32, 371.

⁴ *Ibid.*, 353.

⁵ *Ibid.*, 355.

⁶ In the *Poverty of Philosophy*, written by Marx in answer to Proudhon's *Philosophy of Poverty*.

⁷ Cf. esp. Fan-Hung, "Mr. Keynes and Marx on the Theory of Capital Accumulation, Money and Interest," *Review of Economic Studies*, VII (October, 1939), 28-41. Also S. S. Alexander, "Mr. Keynes and Mr. Marx," *Review of Economic Studies*, VII (February, 1940), 123-135.

In the light of the conflict between Marx and Proudhon and in view of the linkage between Keynes, Gesell, and Proudhon, the Keynes-Marx juncture would appear to be of limited significance.

Gesell unstintingly acknowledges Proudhon as the only economist prior to himself whose investigations into the theory of capital and interest had suggested a workable solution for the reform of capitalism. To Proudhon's insight into the theory of capital and interest, Gesell attributes Proudhon's suggestion for eliminating nonfunctional (unearned) income by means less radical than complete socialization of the ownership of the instruments of production. Gesell's clearest statement of his relation to Proudhon in this connection is contained in the introduction to the *Natural Economic Order*:

The abolition of unearned income, of so-called surplus-value, also called interest and economic rent, is the immediate economic aim of every socialistic movement. The method generally proposed for the attainment of this aim is Communism in the shape of nationalization or socialization of production. *I know of only one socialist—Pierre Joseph Proudhon—whose investigations into the nature of capital point to the possibility of another solution of the problem. . . . No one, except Proudhon, was able to conceive that the preponderance now manifestly on the side of property can be shifted to the side of the dispossessed (the workers), simply by the construction of a new house beside every existing house, of a new factory beside every factory already established.*⁸

It is therefore quite clear that when Keynes acknowledges Gesell he tacitly admits some kinship to Proudhon. Moreover, the acknowledgments of Keynes to Gesell and of Gesell to Proudhon relate to matters that appear to be fundamental to their social outlooks as well as to their more technical analyses. But the similarity in the thought of these three authors does not imply that any of them was necessarily influenced by the writings of the others, directly. There is no reason for doubting Keynes's statement that he did not see the importance of Gesell's theory until he had independently worked out his own conclusions.⁹ Neither does Keynes appear to have been directly influenced by anything Proudhon ever wrote or said. The episode represents another case of discovery and rediscovery, a common event in intellectual history.

⁸ *The Natural Economic Order*, 3 (italics supplied).

⁹ *General Theory*, 353.

II

Proudhon's response to the problems which confronted his period came first in the form of a program of social reform. He proposed an economic order based on competition and private property in which the elements of unearned income—interest and rent—would be eliminated. Proudhon believed that by replacing the Bank of France with a bank of exchange, or a "Peoples' bank," a manifold increase in the rate of wealth creation would result. Such a bank, Proudhon alleged, would furnish a market for all the products that producers were capable of supplying. The basic purpose of the bank was to universalize the bill of exchange¹⁰ and thus overcome the scarcity of money and credit. Every commodity was to be raised to the level of a medium of exchange, a function in existing circumstances enjoyed only by money. This end involved complete abandonment of a relation between gold, or any other type of specie, and the media of circulation.¹¹ The essence of the idea behind the bank of exchange was, in his view, to make every product of labor equivalent to ready money.

The point which needs emphasis is that Proudhon's program for the solution of the economic problem was in every respect a financial one. It represented an attack upon the gold standard, the policy of the Bank of France, the stock exchange, and all other institutions that made for speculation and instability. One of the chief merits of his program, as he saw it, was that it would abolish the preference for money over other forms of wealth, thus making possible full realization of the potential productive capacity of the economy. Proudhon did not propose to eliminate the private enterprise system. Market competition was to continue to regulate the prices of commodities. What he proposed to do was to set up the necessary conditions prerequisite to the smooth functioning of competitive forces. Under his bank of exchange system he believed that unemployment could not exist because there would never be any lack of effective demand. "Supply" would create its own "demand."

It was, therefore, in connection with his proposal for a bank of exchange that Proudhon made his special theoretical contribution to political economy, the theory of "constituted value." An appreciation of Proudhon's practical program for a bank of exchange is essential to an understanding of his economic theory, because in its broadest reference Proudhon's economic analysis represents a theory of the

¹⁰ Proudhon, *Oeuvres complètes* (Paris, Brussels: Lacroix, 1867-1876), VI, 115.

¹¹ Specie would have been used only for small change.

exchange of commodities and of the circulation of money. A clue to his theoretical position is found in a statement he made in the course of his controversy with Bastiat. Here Proudhon said that the whole of economic analysis was contained in a theory of the circulation of capital, and not in a theory of capital as such.¹² Unlike Marx, Proudhon was not concerned with the tensions arising from the accumulation and replacement of capital assets. The theoretical emphasis focuses on the sphere of circulation rather than the sphere of production.

Keynes's program is familiar enough to require no elaboration. His practical position postulates that social control should be exercised over interest rates, investment markets, and the distribution of income. This empirical program, in turn, is an indispensable guide to an understanding of his choice of independent variables (the rate of interest, the marginal efficiency of capital, and the propensity to consume) in his theory of employment. It is not my intention to add another chapter to the polemics of the Keynesian "revolution" in economic theory, but I am concerned with the more important question of the *meaning* of his theory. For until we have discovered the objective of Keynes's theory as a whole, discussions of particular concepts, such as liquidity-preference, expectations, or the multiplier, cannot be very fruitful.

III

In their attitudes toward property, Proudhon and Keynes bear an interesting relation to one another. Proudhon's name is universally associated with the phrase, "Property is theft." Ironically, Proudhon did not mean what he wrote; indeed his general attack on private property was really a qualification of its scope. Proudhon was a defender of private property throughout his life.¹³ He wanted to retain the private ownership of the instruments of production but eliminate the receipt of property income. Keynes completely avoids derogatory references to private property as such. He confines his strictures to financial capital in gen-

¹² "Ce n'est pas le capital lui-même, mais la circulation du capital . . . qui au fond constitue toute la matière de la science économique. . ." *Oeuvres complètes*, XIX, 216.

¹³ Proudhon's writings are replete with apologies and explanations of his famous phrase. Cf. for example, *Correspondence* (Paris, Lacroix, 1875), II, 296. Cf. also *Oeuvres complètes*, VI, 148; *Oeuvres posthumes* (Paris, Lacroix, 1866-1875), I, 204-205. Nearly all students of Proudhon are agreed on this important point. Cf. Hubert Bourguin, *Proudhon* (Paris, 1901), 189-190; Anton Menger, *The Right to the Whole Produce of Labor* (New York, 1899), 76; D. W. Brogan, *Proudhon* (London, 1934), 27; Roger Saltau, *French Political Thought in the Nineteenth Century* (New Haven, 1931), 270-272; Charles Gide and Charles Rist, *A History of Economic Doctrines* (New York, n. d.), 293.

eral and to the disadvantages of the private ownership of money in particular. The *General Theory* may be viewed as a work which traces in some detail the disastrous consequences that result to the total economy from the propensity to accumulate hoards of money. In spite of differences in terminology, Proudhon and Keynes come essentially to the same position on the private ownership of property and money. Their position involves a condemnation of all property income, the flow of which is attributed to the artificial scarcity of capital assets caused by the restrictive tendencies resulting from the peculiarities of money.

Proudhon's objection to "property" is analogous to Keynes's objection to interest income, or *rentier* income in general. Proudhon distinguished between "property" and "possession." By the latter he meant the private ownership of the instruments of production minus the unearned (nonlabor) income which usually accrues to such property. Keynes says that it is not the ownership (possession) of property which it is important for the state to assume.¹⁴ The state should merely control certain aspects of investment and determine, in the present stage of economic development, the basic reward to those who own the instruments of production. Since interest compensates no genuine sacrifice any more than does land rent, the nonfunctional *rentier*-capitalist will gradually disappear, once a rational economic reform program is inaugurated.¹⁵ Keynes differs from Proudhon in so far as he is not directly concerned with the problem of nonfunctional income from land, although he does refer to income from land as a scarcity rent.¹⁶ Inasmuch as Proudhon believed that gratuitous credit was the instrument for abolishing rent as well as interest, his primary preoccupation does not differ from that of Keynes. Both writers see in money institutions and in the credit structure built upon them the principal cause of the difficulty. Both writers hold that private property in the means of production is fundamentally sound, and both feel that the hoarding (or the tendency to hoard) money is the real root of the economic problem. This similarity of practical insight is the clue to understanding why the theoretical analyses of both Proudhon and Keynes center on money and interest.

IV

The most deep-seated change in social structure involved in the anti-Marxian reforms of Proudhon and Keynes is the passing of the *rentier*,

¹⁴ *General Theory*, 378.

¹⁵ *Ibid.*, 376, 378.

¹⁶ *Ibid.*, 376.

whose disappearance will occur gradually as the rate of return on capital falls to zero. It must be emphasized that this implies no necessary ethical judgment prejudicial to the *rentier*. The attitude toward the *rentier* is not fully explained until the emphasis on the role of the active entrepreneur has been clearly indicated. Disappearance of the functionless *rentier* is incidental to the practical program which makes the entrepreneur the initiator of economic activity. Society has no particular stake in the inactive, nonfunctional *rentier*. On the other hand, anything that dampens the ardor of entrepreneurship is inimical to the welfare of society as a whole. In an economy in which enterprise is carried on largely with borrowed capital, the payment of interest to the *rentier-capitalist* acts as a brake to progress. A reduction in the cost of transferring purchasing power out of the hands of inactive *rentiers* into the possession of active entrepreneurs is obviously a stimulus to enterprise.

The attack on the *rentier* involves, on the objective level, therefore, a matter-of-fact pronouncement that, if the conditions under which enterprise is carried on are not bettered, the community as a whole will suffer. Furthermore, if fundamental social change such as the elimination of the *rentier* can be accomplished gradually, after the manner suggested by Keynes and implied in the nonrevolutionary position of Proudhon, in their opinion, it is open to even less objection. The ethical judgment that a nonfunctional economic group should not participate in the distribution of output is not necessary, though it is present certainly in the case of Proudhon. One can be less certain about Keynes's subjective attitude toward the *rentier*, but this is not important.

V

Both Keynes and Proudhon repudiate the assumption implicit in the main body of orthodox principles of economics, that all capital is industrial capital. They are agreed that financial capital, because of its strategic place in the mobilization and exchange of industrial capital, possesses characteristics that impose profound limitations on the functioning of an otherwise sound competitive system. It is precisely the manipulation of financial capital that is responsible for the characteristic difficulties associated with capitalism; namely, lack of effective demand, crisis, depression, unemployment, and poverty.

The distinction between the behavior of financial and industrial capital enables Keynes and Proudhon to factor out for special analysis that sphere of the economy in which they believe practical remedies are needed. They select from the totality of the economic process the diffi-

culties arising from the use of money in making transfers between buyers and sellers and between savers and investors. Proudhon's statement that the circulation of capital constitutes the whole of economic theory parallels Keynes's preoccupation with the savings and investment process which links individual nonconsumption with social accumulation. This "transfer" difficulty arises primarily because of people's preference for holding wealth in liquid form.

In the theories of both men the preference for holding money is related to a particular concept with which the alleged uniqueness of the entire theoretical system is associated. Keynes's concept is "liquidity-preference"; Proudhon's, "constituted value." Each writer is quite pretentious concerning his theoretical innovation. Upon a basis of the idea denoted by his novel concept, each proclaims the superiority of his theory over that of any predecessor.¹⁷ The advocacy of practical policies is closely connected with each writer's central theoretical concept.

The theoretical systems of Keynes and Proudhon may both be characterized as theories of interest and money considered in relation to the utilization of resources and the accumulation of capital. Allowing again for differences in terminology, both theories of interest are appropriately described by the adjective "liquidity-preference." According to Proudhon, as well as Keynes, interest is the reward for parting with liquidity; it is a payment for not hoarding. In Proudhon's language, interest payments are necessary in order to induce the owner of money to "engage" it.

First defining capital as "every settled value (*valeur faite*), whether in land, machinery, merchandise, provisions, or money, serving or capable of serving in production,"¹⁸ Proudhon distinguishes between capital that is "free" and capital that is "engaged." Capital is "free" when it is in a form that "can be regarded as realized or immediately realizable—that is, converted into such other product as may be desired; in this case the form that capital most readily assumes is that of money."¹⁹ On the other hand, "capital is said to be engaged . . . when the value that constitutes it is employed definitely in production; in this case it assumes

¹⁷ For an excellent statement by Keynes of the way in which the novelty of his position is based on his theory of interest, see his article, "A Self-Adjusting Economic System?" *The New Republic*, LXXXII (February 20, 1935), 35-37. See also "The General Theory of Employment," *Quarterly Journal of Economics*, LI (February, 1937), 209-223. For Proudhon's claims concerning the merits of "constituted value," see his *System of Economical Contradictions* (Boston: Tucker, 1888), Vol. I, Chap. II.

¹⁸ *Oeuvres complètes*, XIX, 287.

¹⁹ *Ibid.*

all possible forms.”²⁰ Interest is described as the payment which is necessary to induce the owners of “free” or money capital to “engage” it in productive uses. Hence :

Values created by net product are classed as savings and capitalized in the most highly exchangeable form, the form which is freest and least susceptible of depreciation,—in a word, the form of specie, the only constituted value. Now if capital leaves this state of freedom and *engages itself*,—that is, takes the form of machines, buildings, etc.,—it will still be susceptible of exchange, but much more exposed than before to the oscillations of supply and demand. Once engaged, it cannot be *disengaged* without difficulty ; and the sole resource of its owner will be exploitation. Exploitation alone is capable of maintaining engaged capital at its nominal value.²¹

Thus for Proudhon interest represents a premium that must be paid to the capitalist before he will surrender his money (“free” capital) and permit it to be used as “engaged” capital for the output of goods and services. There is a close resemblance between this view and Keynes’s theory that interest is a payment for not hoarding money. What Keynes calls the “liquidity-preference” for money, Proudhon calls the “constituted value” of money. By having values “constituted” Proudhon meant having the true, and therefore the stable and certain, values replace the fluctuating and uncertain values which prevail in the case of all forms of wealth save metallic money. Although “liquidity-preference” and “constituted value” are cognate concepts, they are not identical. Both take on meaning in relation to the uncertainty of future events. The reference of “constituted value” is somewhat broader than Keynes’s “liquidity-preference” ; indeed it includes part of the range of considerations covered by Keynes’s “marginal efficiency of capital.”

Proudhon explains the operational meaning of “constituted value” when he attempts to show how the bank of exchange could overcome the preference of wealth owners for money. In the existing organization of society, he said, the only commodity whose value is “constituted” is money. If the practical objectives which Proudhon set out for the bank could be realized, the values of all commodities would be “constituted,” and consequently there would be no basis for preferring money to any other asset. Not only would this permit a progressive lowering of the rate of interest to zero, but it would also eliminate the dark forces of

²⁰ *Ibid.*, XIX, 288.

²¹ *Economical Contradictions*, I, 291 (Proudhon’s emphasis).

uncertainty concerning future values which periodically cause business enterprise to degenerate into purely speculative activity, and which lead men to seek security in the "constituted" value of specie.

In the writings of Proudhon as in those of Keynes, the attack on the *rentier* is intimately related to the argument that the payment of interest is not necessary to induce saving (nonconsumption), and to the allegation that accumulation will be accelerated by a low or zero rate of interest. It is not necessary to deny the tendency of individuals to save more out of a given income at a higher rate of interest than at a lower rate. The essence of the matter is rather that the rate of interest is the principal deterrent to the creation of income and accumulation. Any functional relation between the rate of interest and the volume of savings *from a given income* is secondary. The existence of unemployed resources is what gives validity to the argument that consumption and the accumulation of capital can increase together. This contrasts sharply with the orthodox view, which is based on the implicit assumption of full employment, and which postulates that accumulation can increase only at the expense of consumption, or vice versa. Thus Proudhon says:

It is not the multiplication of capital which decreases the rate of interest, but the decrease in the rate of interest which increases capital.²²

And Keynes says:

Thus, even if it is the case that a rise in the rate of interest would cause the community to save more *out of a given income*, we can be quite sure that a rise in the rate of interest . . . will decrease the actual aggregate of savings.²³

When Proudhon states that it is not the multiplication of capital which decreases interest, but, on the contrary, the decrease of interest which multiplies capital, he closely approximates Keynes's central thesis that the rate of interest determines the rate of accumulation of capital, and thus the marginal efficiency of capital, and not the other way around.²⁴

VI

Both Keynes and Proudhon are extremely optimistic concerning the rate at which accumulation would proceed if substantial reductions were made in the rate of interest. Both believe that a relatively brief period

²² *Oeuvres complètes*, XIX, 267.

²³ *General Theory*, 111.

²⁴ This is Hawtrey's characterization of the central thesis of the *General Theory*. Cf. *Capital and Employment* (New York, 1938), 230.

of unimpeded production would so increase the quantity of capital assets that capital would be deprived of its scarcity value. The return over the life of an investment would then just be equal to its cost. In the social philosophy of the *General Theory*, the *rentier* must go—and with the *rentier* “the cumulative oppressive power of the capitalist to exploit the scarcity value of capital”²⁵—if industrial capitalism is to surmount the obstacles imposed by financial capital.

Opposition to the so-called productivity and abstinence theories of interest follows logically from this position. The interpretation of interest as a scarcity rent, paid for the use of unnecessarily scarce capital assets, is not consistent with the view that capital is “productive.” All versions of the productivity theory are, therefore, explicitly rejected by Proudhon²⁶ and by Keynes.²⁷ The income received by the owners of capital is not a consequence of the “productivity” of capital, but a deduction from the income created by labor. In this sense these interest doctrines are correctly referred to as “exploitation” theories. The exploitation results from the institutional monopoly which centers in the restrictive tendencies of financial capital.

The view that interest is a scarcity rent, combined with the position that *earnings* of management represent merely *wages* of management, has its logical corollary in the theory of value. Having been trained as a monetary theorist, Keynes had no particular occasion prior to the *General Theory* for either explicitly accepting or rejecting the Marshallian theory of surplus. Presumably, however, his acceptance of Marshall’s theory of interest involved acceptance of Marshall’s theory of value; namely, that in the long run the value of a commodity tends to correspond to its cost of production, including the cost of labor and of waiting. Keynes’s present position that the scarcity of capital is attributable to the stickiness of the interest rate, and that interest, like the income from land, is a scarcity rent, leads logically to a rejection of the Marshallian view of value and surplus. Keynes is thus led to the position of Proudhon, that everything is produced by labor.²⁸ The thesis that labor includes the services of the entrepreneur as well as of wage earners is fundamental to the anti-Marxian basis of the Proudhon-Keynes theories. This is consistent with the view that private possession, or ownership, of the instruments of production in itself does not constitute an

²⁵ *General Theory*, 376.

²⁶ *Oeuvres complètes*, XIX, *passim*, esp. 217, 291.

²⁷ *General Theory*, 213-217.

²⁸ *Ibid.*

institutional monopoly. "Earnings of management" are identified with "wages of management." Interest is a part of surplus in the same sense that rent is the element of surplus in the Marshallian system, and in the same sense that rent, interest, and profits constitute surplus in the Marxian system. If the theory of surplus were to serve as the criterion, the Keynes-Proudhon tradition would fall midway between the Marshallian and the Marxian positions in the manner just indicated. The problem is coextensive with the problem of functional participation in the creation of current output of goods and services.

VII

Another theoretical similarity, closely associated with the practical views of Keynes and Proudhon, relates to their attitudes toward the effects of changes in money wages on the volume of employment. Superficially considered, the two writers might appear to be at opposite poles on this issue. For in 1848 during the critical and depressed economic conditions that followed in the wake of the political revolution, one of Proudhon's recommendations was that all money-wage rates should be reduced. Keynes, on the other hand, has been perhaps the leading opponent among academic economists of money-wage reductions during the recent depression. This apparent difference is not difficult to reconcile.

In practical politics, both Keynes and Proudhon express a preference for the "liberal" rather than the "trade-union" solution of problems concerning betterment in the standard of life of the working class.²⁹ On a personal, subjective level it is probably true that Proudhon was a more genuine champion of the workingmen's cause than Keynes is. Yet Proudhon was more hostile to organized labor than Keynes is, even though Keynes has seldom been other than critical of the trade-unionists. Keynes is by no means opposed to an improvement of the standard of life of the working class, but as a practical matter he does not believe that the trade-union movement can serve the interests of the workers and the welfare of society as well as his own type of reform.

An inadequate appreciation of Keynes's practical outlook has led some observers to view him as a protagonist of organized labor, and to stress

²⁹ On Keynes's views, see his article "The Question of High Wages," *Political Quarterly*, I (January, 1930), 110-124; and his "Am I A Liberal?" *Essays in Persuasion* (New York: Harcourt, Brace and Company, 1932), 323-338. On Proudhon's views, see *Oeuvres complètes*, VI, 91-94, 98-99, VII, 195.

the importance of the *General Theory* as a theory of wages.³⁰ But these views of Keynes are to be understood not as a defense of organized labor, but as a repudiation, in terms of his own program, of the views of Professor Pigou and others. His opposition to reductions in money wages is more a polemical than a constructive aspect of his theory. Although consistently opposed to money-wage reductions, Keynes has not advocated increases in money wages. He accepts the classical position that real-wage rates will tend to fall if employment is to increase in the short run.³¹ His argument is that changes in real wages cannot be brought about via changes in money wages, but can only be achieved as the total volume of employment is changed as a result of *other forces* in the economy.³² These other forces are the rate of interest, the marginal efficiency of capital, and the propensity to consume. *The General Theory of Employment* is primarily a theory of *interest and money* and *not a theory of wages*.

The futility of making changes in money wages is consistent with the emphasis on financial reform, as contrasted with reform through organized labor. Any manipulation of wage rates is a purely auxiliary aspect of the programs of both Keynes and Proudhon. At the same time that Proudhon recommended reductions in money wages, he also advocated decreases in the money value of all income shares as well as in all prices. He justified his stand on the grounds that more goods could be moved and more workers employed at lower prices than at higher prices.³³

In a similar spirit Keynes says that reductions in money-wage rates may indirectly have a tendency to increase the volume of employment.³⁴ In his chapter on "Changes in Money-Wages,"³⁵ he points out that if concerted action for a large reduction in the money demand for labor were possible, it would afford a technique for maintaining full employment.³⁶ A reduction in the wage unit would require less money for the

³⁰ Cf. A. L. Rowse, *Mr. Keynes and the Labour Movement* (London, The Macmillan Company, 1936). Cf. also A. P. Lerner's review of the *General Theory* in the *International Labour Review*, XXXIV (October, 1936), 435-454.

³¹ *General Theory*, 17. Logically, this is a consequence of Keynes's acceptance of the principle of diminishing returns in the short run.

³² *Ibid.*, 13, 14, 40.

³³ Cf. Karl Diehl, *P. J. Proudhon, Seine Lehre und Sein Leben* (Sammlung Nationalökonomischer und Staatswissenschaftlichen Seminars zu Halle, edited by Dr. Joh. Conrad), VI, 45.

³⁴ Of course any favorable influence from a wage-rate reduction must be more than sufficient to offset the unfavorable influence on the marginal propensity to consume.

³⁵ *General Theory*, Chap. XIX.

³⁶ *Ibid.*, 267.

payment of wages, and thus free money for satisfaction of the liquidity-preference due to the speculative motive. This in turn would lower the rate of interest and stimulate investment and employment. This flexible wage policy is *analytically* an alternative to a flexible money policy. *Practically*, however, such a policy is inexpedient in a democratic society with labor unions as strongly organized as they are in contemporary England. In Proudhon's France, labor unions were not strong enough to make such a policy inexpedient. The real point of similarity between Keynes and Proudhon is, therefore, that they both view changes in money wages as effective remedies for unemployment only in so far as the changes react on the financial mechanism. In general, it is preferable to exercise control directly through financial factors. In some circumstances changes in money wages can indirectly accomplish the same ends.

VIII

The preceding analysis indicates that there are theoretical similarities in the writings of Proudhon and Keynes corresponding to similar practical outlooks. The attack on financial capital directs the emphasis toward the theory of money and interest, and leads to interesting uniformities in some of the special aspects of the respective theories. Proudhon and Keynes reacted to relatively similar issues, though there were wide differences in the chronology and geography of their environments. Proudhon wrote during the hectic years of the revolution of 1848. Keynes's ideas developed gradually under the influence of such postwar problems as international indebtedness, prolonged economic depression, financial crisis, and mass unemployment.

The common meaning of the theoretical as well as the practical orientations of Keynes and Proudhon is discovered in their attack on financial capital, combined with their acceptance of private industrial enterprise. Instabilities associated with the speculative tendencies of financial capital are not interpreted as an integral part of the private enterprise system, but as unnecessary accretions which can be eliminated by appropriate financial reforms. In their view, the prevailing money and credit arrangements represent an institutional monopoly. This institutional monopoly gives rise to a strategic "bottleneck" which prevents the full employment of community resources; it leads to inadequacy of effective demand, and results in an artificial scarcity of capital assets. The positive appeal is to a reordering of the financial structure in such a manner that these undesirable consequences may be averted. A distinguishing characteris-

tic of the theoretical argument of both Keynes and Proudhon is the integration of monetary theory into the general body of economic principles. Their chief criticism of the classical position centers around the theory of the rate of interest.

There are, however, important differences between the two authors which should not be overlooked. The fundamental difference between the industrial structures of France in the midnineteenth century, and England (and the United States) today, necessarily would give rise to rather different attitudes toward financial capital. Proudhon's individualism did not involve an acceptance of industrial capitalism. His objective was to enable every one to become a small owner-worker, a position not without a certain plausibility when considered in relation to the circumstances prevailing in France at the time he wrote. Today this liberal, humanitarian outlook, with its emphasis on individualism, both economic and political, must by virtue of concession to historical development accept large-scale property and production; *i.e.*, large-scale industrial capitalism.

Both the merit and the weakness of the writings of Proudhon and Keynes is that they have emphasized the practical and theoretical importance of money. Their criticism of orthodox principles strikes at a vulnerable point. Yet in their role as financial reformers they place undue emphasis on money and the rate of interest in relation to output. Having integrated money into the theory of output as a whole, they propose to separate the monopoly of financial capital from the rest of the private-property basis of modern industrial society.

Proudhon and Keynes are only two examples in a long tradition of thought which links the criticism of financial institutions with a well-defined pattern of theoretical ideas. The economic theory of each author represents primarily an argument for his program of social reform. The recurrence of this association of practical outlooks with similar theoretical patterns has interesting implications for economic theory. Furthermore, this approach to theory affords a method for making a comparative study of capitalism, the characteristic structure of which gives rise to similar problems in different times and different places.

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